RURAL AREA MARKETING PLAN EVALUATION

BRIEFING REPORT 99-10

Full report 99-10, click here

REPORT DIGEST

NOVEMBER 10, 1999

STATE OF WASHINGTON

JOINT LEGISLATIVE AUDIT AND REVIEW COMMITTEE

AUDIT TEAM

Bob Thomas, *Principal Management Auditor/Supervisor*
Heather Moss, *Senior Management Auditor*

LEGISLATIVE AUDITOR

Tom Sykes

Copies of Final Reports and Digests are available on the JLARC website at:

http://jlarc.leg.wa.gov

or contact

Joint Legislative Audit & Review Committee
506 16th Avenue SE
Olympia, WA 98501-2323
(360) 786-5171
(360) 786-5180 Fax
e-mail: neff_ba@leg.wa.gov

EVALUATION OF 2SSB 5740: ASSISTANCE FOR RURAL DISTRESSED AREAS

This study responds to a legislative mandate to evaluate the effectiveness of the Assistance for Rural Distressed Areas Act (2SSB 5740, Chapter 366, Laws of 1997). This act and the programs created within it are commonly referred to as the Rural Area Marketing Plan (RAMP). Many parts of the Act passed by the legislature were vetoed by the Governor. This briefing paper reports on the three programs that were created or modified in the Act (indicated in ***bold italics***, below), and provides observations on lessons learned from recent JLARC evaluations of economic development and relief programs. These lessons learned can serve as guidelines for the evaluation of similar state programs.

MAJOR FINDINGS

- ***Rural Enterprise Zones*** were created to provide a variety of economic development services, regulatory relief, and infrastructure enhancement for eligible communities. The Department of Community, Trade and Economic Development (CTED) did not implement the Rural Enterprise Zone program because communities could receive similar benefits from other programs without completing a special application. There was also little interest in the program on the part of communities. CTED has assisted communities through other similar programs.
- Distressed rural counties have been eligible to participate in a ***.04 Percent Sales and Use Tax*** transfer program to finance public facilities. The .04 percent translates to 4 cents out of each $100 collected. This tax is actually a credit against the state's portion of the taxes rather than an additional tax at the local level. In 1999 the legislature increased this tax provision to .08 percent, changed the eligibility criteria to be based upon population density, and tightened the definition of what qualifies as a public facility. This tax can be levied for up to 25 years, regardless of whether the county maintains its distressed or rural status.

  When this program was first created in 1997, no state agency was made responsible for monitoring how the tax revenue was being administered, how it was being spent, or whether the program was making an impact on the local economies. However, CTED is in the process of providing technical assistance, collecting baseline data, and providing general oversight. This briefing report provides some information on administration and on how the money is being spent.

- ***The B&O Tax Credit*** program was created in 1986. It originally provided tax credits of $1000 towards the state's business and occupation tax for new jobs in manufacturing, research and development, and computer-related services in economically distressed counties. The credit now ranges from $2000 to $4000, depending on the wage and benefit level of the new job created.

  The Department of Revenue (DOR) evaluated the program as it existed until 1996, when the tax credit was still $1000. The DOR evaluation concluded that under the most positive possible assumptions, there was no payback to the state in terms of tax revenue from the jobs credit program alone. By the fifth year (for those businesses for which there was five years of employment data), almost all the jobs that were created had disappeared, making a payback impossible.

  This study has not been updated since 1996, but DOR has stated that it is reasonable to assume that the changes made to the program after 1996 are not likely to have changed the outcomes as described in that report.

LESSONS LEARNED

1. ***Mandates for new programs should, if possible, include criteria for determining success.***
2. ***The implementing agency should be directed to collect and report data concerning program outcomes and performance. The implementing agency should also be specified in the original mandate for a program.***
3. ***Independent evaluations of economic development and relief programs should be reserved for areas of significant fiscal or program impact.***
4. ***A sunset review may not be the best vehicle for providing an independent evaluation of a program.***
5. ***Evaluators should use caution in employing economic multipliers to estimate the impact of economic development programs.***
6. ***Discount rates used in the analysis of economic development programs should reflect the cost of capital to those who must ultimately pay for the programs.***